**Draft of Memos**

MEMORANDUM

From: The Chief Financial Officer

From: Internal Auditor

Date: 16 November 2020

Subject: Summary of the Audit Process

Conducting an audit provides information on the organization’s effectiveness in providing reliable information to stakeholders. Amazon is an international organization whose financial transactions are relied on by investors, customers, suppliers, regulators, and communities all over the world. Therefore, conducting an internal audit is aligned with the company’s objective to provide accurate and reliable transactions.

The auditing process is a five-phase exercise that includes initial audit planning, seeking external expertise, identifying and testing control activities, reviewing and communication of results, and preparing the audit report. Auditors evaluate the reliability of the organization’s financial statements to provide accurate and complete financial information. However, it is not possible to audit all the financial transactions in the financial records. Therefore, systematic sampling is applied to pick a sample population. The population is consequently tested, and the results represent the entire financial records.

To mitigate potential risk factors for major business transactions, it is important to change the technique used to determine the fair value of items. Currently, the valuation of unobservable inputs depends on the management’s opinion. Such a valuation method is subjective and undermines the accuracy and reliability of financial statements. The management should also improve internal control mechanisms to ensure that all revenues are accounted for. The analysis of the 2019 financial statements revealed that it was challenging to determine revenue earned from a number of sales. The management should implement measures to ensure the availability of financial information associated with the sales, costs, and revenues for all items.

MEMORANDUM

To: The Board of Directors

From: The Chief Financial Officer

Date: 16 November 2020

The auditing process provides crucial information concerning the organization’s ability to provide accurate, complete, and reliable information. Part of my duty as a CFO is ensuring that measures are put in place to enhance the accuracy of information. Recently, the internal auditor conducted an audit that evaluated the organization’s effectiveness in implementing measures to provide accurate and complete information.

The audit established that Amazon has put in place necessary measures to ensure the collection of accurate and complete information in all areas of its supply chain. However, the report highlighted two areas that limit the organization’s attainment of 100% accurate and complete information. One of the shortcomings identified by the auditor is the valuation method used by the organization. The fair value valuation depends on the discretion of the management. The valuation method is subjective and may not be reliable. Another shortcoming identified in the audit is inefficiency in internal control methods to assign revenues to all items. Auditors were unable to calculate the net profit for orders on consumer products for certain individuals located in Iran. The inability to calculate net profits for all items undermines the collection of complete financial information and sheds doubt on the reliability of the financial information.

To enhance accuracy and reliability, external experts should be included in the fair value determination. The external experts would enhance the objectivity of the valuation process. The company should hire expert valuers and consultants when determining the fair value of unobservable inputs. Secondly, Amazon should implement internal processes that capture the net profits for all items, including those that are shipped out to areas such as Iran. The company should review the laws and regulations in different countries and ensure its shipping policies comply with the regulations.